

IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects

The IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects is available online for public use and dissemination. It is primarily intended as a guide for IFAD borrowers and recipients and other external stakeholders on operational aspects and requirements related to financial reporting (section 5) and auditing (section 6) of IFAD-financed projects. Tailored guidance is provided for investment projects and grants, both those subject to the Policy for Grant Financing and those financed by supplementary funds. Third-party financiers may impose specific requirements that are not stated in this Handbook; such specifications are outlined in the respective financing/ grant agreements.

The Handbook is intended for use in conjunction with the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed Projects, approved by the Executive Board at its 122nd session on 12 December 2017, and specific related project documents, including financing/grant agreements and the Project Financial Management and Financial Control Arrangements Letter, where relevant.

The Handbook will be updated to include new guidance as and when required. The authority to approve changes to the Handbook lies with the Associate Vice-President, Chief Financial Officer and Chief Controller, Financial Operations Department.

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1. Abbreviations and acronyms

DA	Designated Account
EU	European Union
FMFCL	Financial Management and Financial Control Arrangements Letter
GCS	IFAD General Conditions for Agricultural Development Financing
IESBA	International Ethics Standards Board for Accountants
IAASB	International Auditing and Assurance Standards Board
IFAD	International Fund for Agricultural Development
IFI	International financial institution
IFR	Interim Financial Report
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISAE 3000	International Standard on Assurance Engagements
ISRS	International Standards on Related Services
ISA	International Standards on Auditing
SAI	Supreme Audit Institution
SOEs	Statement of expenditures
TOR	Terms of reference

2. Definitions

1. Borrower: An entity defined as such in the financing agreement, in accordance with Art. 7, Section 1, (b) of the Agreement Establishing IFAD.¹
2. EU-funded grant: A grant received and administered by IFAD and funded by the European Union. Such a grant may be provided on a stand-alone basis or in combination with a loan/grant to an investment project.
3. Investment project: A project funded by IFAD and financed through a financing agreement under the terms of the General Conditions for Agricultural Development Financing.² The financing may include loans, grants or a combination thereof.
4. Project/programme: A project or programme that has been provided with financing by or through IFAD by means of a loan and/or grant.
5. Public auditor: An SAI or other public office (i.e. not a private auditor) entrusted with public audit responsibilities.
6. Recipient: A Member State or other entity that receives a grant and is designated as such in the grant/financing agreement.
7. Grant under the General Conditions: A grant financed by IFAD subject to the General Conditions for Agricultural Development Financing (GCs) for which IFAD and the Recipient entered into a financing agreement.
8. Grant under the General Provisions: A grant financed by IFAD subject to the Policy for Grant Financing for which IFAD and the Recipient entered into a Grant Agreement. For audit and financial reporting requirements, these are divided into three categories, as follows:

Type A grants:

- Large grants (greater than and including US\$500,001 or equivalent) that are assessed as having substantial or high inherent financial management risk, as determined by IFAD;
- Small grants (up to and including US\$500,000) that are assessed as having substantial or high inherent financial management risk, as determined by IFAD;
- Specific categories of grants, as determined by IFAD; these include EU-funded grants and grants to the private sector (for-profit entities).

Type B grants:

- Large grants (greater than and including US\$500,001 or equivalent) that are assessed as having moderate or low inherent financial management risk, as determined by IFAD;
- Small grants (between US\$200,001 and US\$500,000 or equivalent) that are assessed as having moderate or low inherent FM risk, as determined by IFAD;

Type C grants:

- Grants of any amount provided to United Nations agencies and multilateral development banks, microgrants, contributions and grants of up to US\$200,000.

9. **Grant financed by supplementary funds:** A grant financed by donor resources, received and administered by IFAD.³
10. **Non-country grants (NCGs):** Grants of any amount (Type A, Type B or Type C) provided to non-governmental recipients not associated with investment projects and with activities implemented in one or more countries.

¹ Art. 7 Section 1 (b) of the AEI: "Financing by the Fund shall be provided only for the benefit of developing States that are Members of the Fund. Such financing may be provided directly to developing Member States or political subdivisions thereof, or through intergovernmental organizations in which such Members participate or to, or through, national development banks, private sector organizations and enterprises, or other entities as assessed from time to time by the Executive Board. In the case of a loan provided to an entity other than a Member State, the Fund shall normally require a suitable governmental or other guarantees, unless the Executive Board decides otherwise on the basis of a thorough assessment concerning related risks and safeguards."

² As adopted by IFAD's Executive Board on 29 April 2009 and amended in April 2014.

³ Any specific provisions required by the donor in relation to financial reporting and auditing are reflected in the grant agreement.

3. Effective date and transition

11. The Conceptual Framework for Financial Reporting and Auditing of IFAD-Financed Projects (“the Framework”) sets the context for the detailed guidance provided in the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects (“the Handbook”). The Framework went into effect on 1 January 2018, and the Handbook was approved with effect from 1 January 2018. Compliance with the requirements set forth in the two documents is mandatory for borrowers/recipients during the implementation of IFAD-financed projects.
12. This Handbook has been revised to reflect changes in financial reporting requirements following the rollout of the IFRs-based disbursement procedures in 2022.

4. Introduction and scope

13. Proper oversight over and governance of its financial resources is vital to IFAD’s ability to achieve its objectives. They also enable IFAD to be accountable to its stakeholders. Under IFAD policies and procedures,⁴ it is essential that the proceeds of IFAD financing be used solely for the purpose intended under the loan or grant. In line with this requirement, borrowers/recipients must prepare and present audited financial reports that are in alignment with this Handbook.
14. The primary responsibility for financial management arrangements – including financial reporting and auditing – lies with the borrower/recipient. IFAD has an oversight role while also providing support through technical guidance.
15. The impetus for the Handbook came from changes in international accounting and auditing standards, changes in IFAD’s way of doing business and the harmonization efforts undertaken by IFAD.
16. IFAD is committed to modernizing its processes and procedures and upgrading them to reflect international best practices. It is also committed to harmonizing its practices with those of other IFIs, in line with IFAD’s development commitments.⁵ In this regard, IFAD has moved from a static rule-based approach to a principle-based conceptual framework – one that will translate into flexible and agile operational procedures. This framework is the basis for the preparation of this Handbook and should be referred to as appropriate.
17. This Handbook is applicable to projects directly supervised by IFAD. Where supervision arrangements with a Cooperating Institution (CI) are in place, IFAD will assess the CI’s financial reporting and audit arrangements to ensure their acceptability and alignment with this Handbook.

5. Financial reporting

18. IFAD’s General Conditions for Agricultural Development Financing and General Provisions for Grant Financing require the borrower/recipient to maintain accounting records⁶ that accurately reflect project operations, resources and expenditures up to the financing/grant closing date. In addition, the borrower/recipient is required to deliver detailed financial reports on its operations, in accordance with standards and procedures acceptable to IFAD.

⁴ The Agreement Establishing IFAD, the General Conditions for Agricultural Development Financing, the IFAD Grant Policy and the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed Projects.

⁵ Harmonization among IFIs is undertaken in line with IFAD’s development commitments as outlined in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan High Level Forum on Aid Effectiveness (2011).

⁶ For investment projects and grants under the General Provisions Applicable to EU-funded IFAD Grant Agreements, records must be retained in electronic format for a period of 10 years after project closure. For grants under IFAD’s General Provisions for Grant Financing, the requirement is five years after closure.

5.1. Acceptable accounting standards

19. Project accounting records and financial statements⁷ must be prepared in accordance with one of the following acceptable standards:

Table 1: Summary of acceptable accounting standards

	Accrual basis	Cash basis
IPSAS ⁸	✓	
IPSAS, "Financial Reporting under the Cash Basis of Accounting" ⁹		✓
IFRS ¹⁰	✓	
National/regional accounting standards	✓	✓

20. Borrowers/recipients are encouraged to select the standards that best reflect their operations. The standards adopted should be specified in the notes to the audited financial statements.

21. National/regional accounting standards are acceptable if deemed appropriate by IFAD. IFAD normally assesses the acceptability of the accounting standards on a case-by-case basis during the project design phase and confirms its acceptance or non-acceptance of their use to the borrower/recipient. This assessment may be supported by secondary data as provided by the Public Expenditure and Financial Accountability (PEFA) Programme, the Reports on the Observance of Standards and Codes (ROSC) and the Global Status Report of the International Federation of Accountants (IFAC).¹¹

5.2. Financial reporting requirements

22. The financial reporting requirements are as follows:

Table 2: Financial reporting requirements by type of financing

	Investment projects	Grants under General Conditions	Grants under General Provisions		
			Type A	Type B	Type C
Annual project financial statements	✓	✓			
Interim financial reports (IFRs)	✓	✓	✓ ¹²		
Certified SOEs ¹³			✓	✓	✓
Expenditure transaction list	✓ ¹⁴		✓ ¹⁵		

⁷ Equally applicable to institutional financial statements, as referred to in table 2.

⁸ As issued by the International Public Sector Accounting Standards Board (IPSASB).

⁹ As issued by the International Public Sector Accounting Standards Board (IPSASB).

¹⁰ "IFRS" refers to the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) after 2001 and relevant International Accounting Standards (IAS) issued before 2001 by the International Accounting Standards Committee (IASC).

¹¹ <https://www.ifac.org/system/files/publications/files/IFAC-International-standards-2019-global-status-report.pdf>.

¹² Type A grants may also be required to submit quarterly or semi-annual IFRs if required by the Finance Officer, after consideration of the financial management risks involved.

¹³ A certified statement of expenditures (SOEs) is one that has been signed by an authorized signatory.

¹⁴ To be appended to project financial statements if the investment project includes an EU-funded grant. Schedule to be presented in euros, even if the project financial statements are presented in the local currency. A reconciliation of this schedule and the project financial statements should be prepared.

¹⁵ Applicable to EU-funded grants and other Type A grants, as determined by IFAD. Schedule to be presented in the currency in which the grant agreement is denominated, with the exception of EU-funded grants, whose schedule must be presented in euros, even if the institutional financial statements are presented in the local currency. A reconciliation of this schedule and the institutional financial statements should be prepared.

Annual project financial statements

23. Borrowers/recipients are required to deliver annual unaudited¹⁶ project-specific financial statements covering the duration of the implementation period within four months of financial year-end,¹⁷ pursuant to section 9.02 of the General Conditions. The Finance Officer will conduct preliminary checks of the unaudited financial statements.
24. Financial statements must contain all the relevant material and information required to provide IFAD and other stakeholders with a full understanding of the project's activities and financial position.
25. The reporting period will be determined in consultation with the borrower/recipient; it is generally a period of 12 months. This period is expected to coincide with the borrower's financial year, unless otherwise agreed with IFAD.¹⁸
26. The content of the project's financial statements is prescribed under the applicable accounting standards used as the basis for their preparation. IFAD also requires certain additional disclosures. A summary of the required content of project financial statements is outlined in table 3:

Table 3: Minimum prescribed content of annual project financial statements to be submitted to IFAD

Project financial statement	Accrual basis	Cash basis
Section A: Disclosures as prescribed by accounting standards		
1. Statement of financial position (balance sheet)	✓	
2. Statement of financial performance/profit or loss (income statement)	✓	
3. Statement of changes in net assets/equity	✓	
4. Cash flow statement	✓	
5. Comparison of budget and actual amounts ¹⁹	✓	✓
6. Notes (a summary of significant accounting policies and other explanatory notes)	✓	✓
7. Statement of cash receipts and payments		✓
Section B: IFAD-specific disclosures provided as supplementary information		
8. Fixed asset schedule	✓	✓ ²⁰
9. Withdrawal application statement	✓ (Appendix 1)	✓
10. Sources and uses of funds statement	✓ (Appendix 2)	✓
11. Designated Account statement and reconciliation ²¹	✓ (Appendix 3)	✓

27. The borrower/recipient should ensure that IFAD-specific disclosures in table 3, section B are easily and clearly reconcilable with the standard disclosures as outlined in table 3, section A.
28. As a general principle, when a project is implemented by several national or subnational governments/States, the borrower/recipient should prepare a consolidated financial statement.

¹⁶ All project financing sources (IFAD financing, counterpart contributions, beneficiary cash contributions and cofinancier funds, whether in cash or in the form of tax exemptions) and all in-kind contributions must be duly valued and accounted for in the project financial statements. Start-up costs and expenditures incurred with retroactive financing must be recorded and included in the first set of financial statements (where applicable).

¹⁷ IFAD may communicate a period shorter than four months for the delivery of the unaudited financial statements where the country's annual reporting requirements allow for an earlier delivery.

¹⁸ See paragraphs 67–71 for exceptions.

¹⁹ Presented as a separate statement or budget column in the financial statement. Cash basis financial statements may include this comparison as a column in the statement of cash receipts and payments. The level of detail should normally be balances by expenditure category, component or such other detail as may be required and specified by IFAD.

²⁰ Fixed asset disclosure is not specifically required under the cash basis of accounting. It is requested that disclosure be made for IFAD purposes when the cash basis of accounting is followed. A detailed list of fixed assets is to be provided (description, cost, date of purchase and location of use).

²¹ Also required for grants when a separate designated account has been opened, to be submitted together with the certified statement of expenditure.

Similarly, when a project is implemented by several implementing units (within a single entity), the main implementing entity should prepare the consolidated financial statement.

29. In the event that the project uses a modified cash basis of accounting (or modified accrual basis), the financial statement should also disclose the accounts payable and advances outstanding.²² The disclosure is important, especially when advances are made to participating financial institutions.²³
30. The financial statements must separately report financial receipt and expenditures from all cofinanciers.
31. The borrower/recipient should report the counterpart funds provided by the Government of [Country] pursuant to the conditions set out in the relevant financing agreement. When in-kind contributions (from beneficiaries and/or the government) are specified in the financing agreement, the borrower is required to make disclosure thereof in its annual project financial statements. The borrower/recipient is required to measure these contributions in accordance with a predefined methodology agreed with IFAD and to retain all related calculations/documentation for verification during the audit.
32. The borrower/recipient is required to determine the reporting currency based on the primary economic environment in which it operates.²⁴

Interim financial reports (IFRs)

33. Borrowers and recipients of grants governed by the General Conditions for Agricultural Development Financing²⁵ are required to submit unaudited IFRs to IFAD on a quarterly basis, or as stated in the FMFCL. The IFRs must be submitted **within 45 days** of the period-end. The format and content of the IFRs will be discussed with the borrower/recipient during the project design stage and documented in the Project Implementation Manual and/or Project Financial Management and Financial Control Letter to the borrower/recipient, as relevant.
34. IFRs will include the sources and uses of funds, variance analysis with explanatory notes, as relevant, designated account reconciliation and cash forecast sections and be used to report quarterly expenditures and forecast disbursements for the following implementation period.
35. IFRs will replace the traditional SOEs as supporting documentation.
36. IFRs must be submitted through the Financial Execution Module of the IFAD Client Portal (ICP). If the project is not enrolled in ICP, the borrower/recipient must send the IFRs to IFAD through the following e-mail: rmt-distribution@ifad.org.
37. Type A grants may also be required to submit quarterly or semi-annual IFRs, if required by the Finance Officer, after consideration of the financial management risks involved.

Certified statements of expenditures

38. All grant recipients governed by the General Provisions²⁶ (grant Types A, B and C) are required to submit statements of expenditure (SOEs) certified by the recipient's management on **an annual basis** or the frequency stated in the grant agreement.
39. SOEs shall disclose the sources and uses of funds spent to finance the grant activities, specifically:
 - a. Source of financing, whether funded in cash or by in-kind contributions²⁷
 - b. Funds received from IFAD and other cofinanciers, as applicable
 - c. Expenditures incurred by the recipient and subgrantees, on a consolidated basis (if applicable) and in accordance with the pre-established expenditure categories or components.
40. SOEs submitted to IFAD shall be presented in the same currency as the denomination currency of the grant agreement. If projects incur expenditures in currencies other than that indicated in the grant agreement, the exchange rate to be used for reporting expenditures is the rate applied when funds

²² When projects have used the modified basis, e.g. transition from cash to accrual basis, the modified framework should be fully disclosed in the financial statement notes. The acceptability of these frameworks will be decided on a case-by-case basis.

²³ For instance, in the case of on-lending in rural finance.

²⁴ IAS 21.

²⁵ Grants for which IFAD and the recipient entered into a financing agreement.

²⁶ Grants for which IFAD and the recipient entered into a grant agreement.

²⁷ Valuations of contributions in kind must comply with generally acceptable accounting principles and be auditable.

were received, on a first-in, first-out basis. The proposed format for the SOE is outlined in appendix 5.²⁸

41. A final certified SOE shall be submitted by the grant closing date for the totality of eligible expenditures incurred by the project during the project implementation period,²⁹ with segregation of winding-up expenditures incurred between the project completion date and the grant closing date.³⁰

Expenditure transaction list

42. Recipients of EU-funded grants are required to submit an expenditure transaction list on a semi-annual basis, 45 days after period-end. Recipients of other Type A grants may also be required to submit expenditure transactions lists. The proposed format for an expenditure transaction list is available in the [IFAD Grant Forms](#) repository (see document C.2 “Transaction List”).

Additional schedules as agreed

43. The requirements outlined (in tables 2 and 3) are expected to be applicable to most projects. However, additional requirements may be established in the financing/grant agreement, contribution agreements with donors and/or in the FMFCL to the borrower/recipient. Borrowers/recipients are required to familiarize themselves with the financial reporting requirements.

6. Audit

44. Under the IFAD General Conditions for Agricultural Development Financing and the General Provisions for Grant Financing, projects are required to have their accounts audited regularly in accordance with standards and procedures³¹ acceptable to IFAD. An audit is required to confirm whether the financial statements provide a true and fair view in all material respects of the financial activities undertaken. Section 6 of this Handbook provides guidance to borrowers and recipients on IFAD’s audit requirements.
45. In line with the General Conditions for Agricultural Development Financing and the General Provisions for Grant Financing, the Fund may engage independent auditors of its choice to audit the accounts related to the project. IFAD may finance the cost of such audits through withdrawal from the financing proceeds.

6.1. Acceptable auditing standards

46. IFAD promotes the use of internationally accepted auditing standards and requires that all projects submit audit reports³² prepared in accordance with one of the following acceptable auditing standards:

Table 4: Summary of acceptable auditing standards for financial statement audits

	Public auditor	Private auditor
International Standards of Supreme Audit Institutions (ISSAI) ³³	✓	
International Standards on Auditing (ISA) ³⁴		✓
National/regional standards, if deemed acceptable by the Fund	✓	✓

47. These standards should be used by external auditors to conduct financial audits of projects. National/regional audit standards are acceptable if assessed positively by IFAD. The audit scope

²⁸ Note that the presentation currency for EU-funded grant SOEs is the euro.

²⁹ As defined in the grant agreement.

³⁰ As defined in the grant agreement.

³¹ Acceptable standards are outlined in the “Conceptual Framework for Financial Reporting and Auditing of IFAD-Financed Projects” and this Handbook.

³² Applicable to project financial statements/institutional financial statements and/or certified SOEs, as relevant.

³³ Issued by INTOSAI.

³⁴ Issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB).

may be expanded in response to identified project risks. In such instances, the following standards may be applicable and are considered acceptable:

- International Standard on Related Services (ISRS 4400), for agreed-upon procedures where the auditor is required to submit a report outlining factual findings related to the review of financial information (it may be applied in the case of quarterly IFR reviews during the annual audit procedures and may be reported in the management letter or its equivalents);
- International Standard on Assurance Engagements (ISAE 3000), where the auditor is required to provide an assurance report over and above the financial statement audit report or factual findings report.

6.2. Appointment of external auditors

Type of auditor

48. The type of auditor will be determined by IFAD prior to the conclusion of the project design process. The auditor will be either a public auditor or a private audit firm. IFAD promotes the use of national systems in the implementation of projects. It is therefore preferable for public auditors to conduct the audit of IFAD-financed projects in cases where the capacities and timing of outputs are adequate.

Criteria for the selection of private audit firms

49. If it intends to appoint a private audit firm, the borrower/recipient is required to assess prospective auditors, based on the following:

- The auditor must be independent of the project, its staff and activities, in keeping with international best practices. Furthermore, the project auditor may not provide consulting services to the project or prepare the project financial statements, or have done so in the previous two years.³⁵
- The auditor must be suitably qualified and a member of a professional body affiliated with the International Federation of Accountants.
- The auditor's work must conform to auditing standards acceptable to IFAD (as outlined in table 4).
- The audit firm must be able to assign to the audit an audit team with the necessary competence and skills.
- The audit firm must have a proven track record in conducting audits of a similar nature and complexity and be licensed to offer audit services where required by national legislation.

Appointment procedure

50. If a private audit firm conducts the audit, the borrower/recipient is responsible for its selection and appointment process. Auditors should normally be appointed in advance of the start of the period to be audited to give the auditor sufficient time to plan and carry out a comprehensive examination of the borrower's/recipient's financial records and accounts. The following appointment process should be adhered to:

³⁵ As recommended by the International Ethics Standards Board for Accountants (IESBA) in section 290 of the Code of Professional Conduct.

Table 5: Private audit firm appointment process³⁶

Step	Procedures	Guidance/timing
Drafting of the auditor's terms of reference	<ul style="list-style-type: none"> ✓ The B/R prepares TOR for the audit (appendix 7). ✓ The B/R sends the TOR to IFAD for review and no objection. ✓ IFAD communicates its no objection on the final TOR to the B/R within 30 days of receipt. 	With sufficient time to allow the appointment of auditors by the start of the financial year to be audited.
Procurement process	<ul style="list-style-type: none"> ✓ The B/R initiates the procurement process, using the agreed TOR. ✓ The B/R informs IFAD of the name of the proposed auditor and the procurement process that was followed. 	The B/R should attempt to finalize the procurement process at least 30 days before the start of the financial year. The auditor should be appointed before the start of the financial year to be audited. ³⁷
Auditor appointment	<ul style="list-style-type: none"> ✓ The B/R appoints the auditor. ✓ The appointed auditor will issue a formal engagement letter.³⁸ 	The B/R's representative will sign and return a copy of the engagement letter to the auditor.

51. A public auditor (Supreme Audit Institution – SAI) may also be appointed to conduct the audit of the financing when considered appropriate by IFAD. In this case, IFAD and the SAI will discuss the audit conditions and adopt TOR acceptable to both parties.

52. EU-funded grants require specific audit procedures that should be incorporated into the TOR. Standard TOR incorporating EU-specific requirements are outlined in appendix 5.

Auditor engagement period

53. When a private audit firm conducts the audit, the appointment period may be for more than one year but not longer than four years, subject to satisfactory performance as assessed annually by the borrower and IFAD. A tender for audit services should be issued at least every four years, with the incumbent able to apply. Ongoing appointment will be considered, subject to the outcome of the audit quality review process conducted by IFAD. Appointments and reappointments should take place as soon as possible prior to the start of the new financial year.

54. The auditor may only be discharged from its position subject to IFAD approval.

Scope of the audit

55. The project's financial audit arrangements are determined during the project design process, in line with the type and size of financing provided and the identified project risks. Risk factors can be linked to country, institution and/or project characteristics. To mitigate identified project risks, IFAD may require audits to be performed with an additional scope and/or agreed-upon procedures. The scope of audit for each financing will normally be defined in the TOR approved by IFAD, which borrowers/recipients should submit to the auditor.

56. The audit should cover selected project regional/provincial implementing units pursuant to the audit plan agreed with the project management unit (PMU)/project coordination unit (PCU).

Audit of consolidated financial statements

57. As stated under financial reporting requirements, when a project is implemented by several national or subnational governments/States, the borrower/recipient should prepare a consolidated financial statement, and the auditors should submit an opinion in respect of the consolidated financial statements. Similarly, when a project is implemented by several implementing units (within a single entity), the main implementing entity should prepare the consolidated financial statements, and the auditors should submit an opinion in respect of the consolidated financial statements.

³⁶ Not applicable to grants under the General Provisions for IFAD Grant Financing.

³⁷ In exceptional cases, and as agreed with IFAD, the appointment may take place during the financial year but should not unduly impact the auditor's ability to perform its duties.

³⁸ Must include the scope of the audit, prescribed responsibilities, the auditing standards to be used, compliance with ethical standards and reporting format.

Regional programmes

58. The audit conditions for regional programmes covering different countries within the same financing agreement shall be agreed upon at the design stage and included in the project design report.

6.3. Auditor reporting requirements

59. The auditor is required to submit the following reports, based on the type of financing:

Table 6: Auditor reporting requirements by type of financing

	Investment projects	Grants under General Conditions	Grants under General Provisions		
			Type A	Type B ³⁹	Type C
Audited Project Financial Statements	✓	✓			
Audit opinion on SOEs			✓		
Management Letter	✓	✓	✓ ⁴⁰		
Institutional Financial Statement			✓	✓	
Statement of Responsibility					✓ ⁴¹

60. In cases where an institutional audit is required, the borrower should ensure that the audit report is comprehensive and covers IFAD financing, which should be separately disclosed in the report. Where internal control weaknesses are identified in the management of IFAD funds, they should be included in the Management Letter.

61. The auditor is expected to submit an audit package that at a minimum includes the audited financial statements, the audit report and the Management Letter (where required).

62. The audit report will outline the audit opinion on the audited financial statements. The opinion is issued in accordance with ISA 700⁴²/705, ISSAI 1700/1705 or national standards.

63. ISA 800 revised is applicable and acceptable for special-purpose audits. In this case, the auditors shall comply with the requirements of the other relevant ISAs; ISA 700/705/706.

64. The Management Letter is an integral part of the audit package that documents internal control issues identified by the auditor. The Management Letter should:

- Outline the auditor's recommendations for addressing identified internal control issues and the project management's responses to them.
- Where applicable, provide follow-up commentary on the issues identified in the previous year's Management Letter.

65. In addition, any ineligible expenditures identified during the audit must be outlined in the Management Letter.

66. The deadline for submitting the audit report is six months after financial year-end.⁴³

³⁹ For Type B grants, only the institutional audit is required; however, IFAD may request an audit opinion on the final certified SOEs in cases where the grant closing date is not aligned to the recipient's fiscal year and to cover the period not captured by the prior year's institutional audit.

⁴⁰ Applicable to EU grants and other categories of Type A grants, as determined by IFAD.

⁴¹ Not applicable to grant recipients that are UN agencies of MDBs/IFIs.

⁴² ISA 700 (Forming an Opinion and Reporting on Financial Statements) provides illustrative audit reports.

⁴³ The auditor and the borrower/recipient should ensure effective two-way communication to ensure that the audit is completed effectively, efficiently and in a timely manner so that the audit report can be issued and submitted in the original to IFAD within six months of the financial year-end, pursuant to section 9.03 of the General Conditions. An audit submission deadline that exceeds six months from financial year-end would require a waiver of the General Conditions and must be determined in the project design.

Audit reporting period: Investment projects and grants administered under the General Conditions

67. IFAD generally requires an annual audit of project financial statements. However, it may change the frequency of the audit based on the project's risk profile. In all instances, IFAD will confirm the frequency with which project financial statements are to be audited.
68. The audit reporting period may be amended for the first and/or final audits, in line with the following guidance.
69. **First audit.** The audit reporting period for the **first** audit is dependent upon the following:
- When the period between the first IFAD disbursement and the end of the financial year is less than six months, IFAD may allow the results for the first financial period to be included in the following financial year's audit; or
 - When the period between the date of the first IFAD disbursement and the end of the financial year is greater than six months, audited financial statements for the period are always required.
70. Start-up costs (when prefinanced by government) and expenditures incurred from IFAD retroactive financing must be accounted for and included in the first set of aggregate financial statements.
71. **Final audit.** For the **final** audit, IFAD may recommend an audit reporting period that is longer or shorter than 12 months but in no case longer than 18 months. This is to ensure that the final audit can be concluded and the audit report submitted to IFAD by the project closing date.⁴⁴ In such instances, IFAD will discuss and agree on its requirements with the borrower well in advance of commencement of the final audit.

Audit reporting period: Grants administered under the General Provisions

72. Grant reporting periods are as follows:

- For Type A grants, a 12-month audit reporting period is normally required;
- For Type B grants, a 12-month audit reporting period is normally required, unless the implementation period is less than or equal to 18 months. In such instances, and as agreed with IFAD, a single audit opinion on the final certified SOE covering the entire implementation period may be submitted.

Other audits⁴⁵

73. In addition to the financial audit, IFAD may also require the following audits,⁴⁶ the requirement for which will be determined case by case by IFAD:
- A **compliance audit**⁴⁷ to verify compliance with financing agreement provisions, in cases where the financial audit scope does not include such provisions; and/or
 - An **operational audit** to review the project's organizational arrangements and support in resolving substantive implementation issues.

6.4. Audit quality review process

74. IFAD conducts reviews of borrower/recipient audit reports. The main purpose of the reviews is to determine whether the auditor conducted a quality audit resulting in an audit opinion acceptable to IFAD and to assess the quality of the financial reporting of the borrower/recipient.

⁴⁴ As defined in the financing agreement, as advised by the auditor.

⁴⁵ These types of audits might be required at IFAD's discretion and will be considered on a case-by-case basis, where the financial audit's scope goes beyond IFAD's usual fiduciary duty responsibilities or where the results of the financial audit require additional assurance on specific areas of project operations.

⁴⁶ Conducted in accordance with ISSAI 4000 and ISAE 3000.

⁴⁷ According to ISSAI 4000, the main objective of a compliance audit is "to provide the intended user(s) with information on whether the audited public entities follow parliamentary decisions, laws, legislative acts, policy, established codes and agreed-upon terms".

75. IFAD will communicate the results of the audit report review process within 60 days of receipt of the audit package.⁴⁸ If required, the borrower/recipient will be requested to take corrective action within a specified time frame.

6.5. Non-compliance with audit requirements

76. Audit reports are due within six months of the borrower's/recipient's fiscal year-end. If IFAD does not receive the audit package by this deadline, or if the audit package is unsatisfactory, IFAD will notify the borrower/recipient. Where appropriate, IFAD may consider engaging an alternative auditor, pursuant to section 9.3⁴⁹ and 10.04 of the General Conditions.
77. If the audit package, while satisfactory to IFAD, is not submitted within 90 days of the stipulated deadline, IFAD will prepare and send a "warning notice," which will inform the borrower/recipient that failure to receive a satisfactory package within 180 days of the deadline will result in the suspension of disbursements under the project or portfolio and/or other remedies, as relevant.
78. If no information is provided by the borrower/recipient within 180 days of the stipulated deadline, or unsatisfactory responses are obtained, IFAD will – pursuant to the terms of section 12.01(b) of the General Conditions – issue a notice of suspension, as stated above, until a satisfactory audit package is received.
79. When the audit report has a qualified/adverse or disclaimer of opinion or has otherwise indicated material weaknesses in financial management in the project, before imposing additional sanctions or remedies against the borrower/recipient, or removing remedies that have already been imposed, IFAD may consider giving the borrower/recipient an opportunity to develop a time-bound action plan acceptable to IFAD to remedy the reported weaknesses, re-state the financial statements and conduct a re-audit thereof.

6.6. Transparency and disclosure

80. IFAD will publicly disclose project financial statements and audit reports related to investment projects, subject to the procedures applicable to their publication.⁵⁰ In line with the standards of the International Aid Transparency Initiative, borrowers/recipients are encouraged to publish relevant financial information on their websites for greater accountability.
81. Borrowers/recipients must ensure that the audit TOR explicitly mention the right of the borrower/recipient and IFAD to publish the audit report, with no limitation-of-use clause.

⁴⁸ Applicable to financing under IFAD's General Conditions only. See appendix 5 for the definition of an audit package.

⁴⁹ If the borrower/recipient does not furnish any required audit report in satisfactory form in a timely manner and the Fund determines that it is unlikely to do so within a reasonable period, the Fund may engage independent auditors of its choice to audit the accounts related to the project. The Fund may finance the cost of such audits by withdrawing from the loan and/or grant accounts.

⁵⁰ The management report will not be disclosed as a public document. Abridged versions may be published if reports contain confidential information.

Appendix 1: Withdrawal application statement⁵¹

For the year ended

Withdrawal application number	Date	Category 1 ⁵²	Category 2	Category 3	Total	Designated account currency equivalent ⁵⁴	Value date ⁵³	Rejected by IFAD	Net reimbursed
		In local currency – xxx					In designated account currency		
Section A: Payment method – Advances									
Approved withdrawals									
Pending submission									
Subtotal (A)									
Section B: Payment method – Reimbursement									
Approved withdrawals									
Pending submission									
Subtotal (B)									
Section C: Payment method – Direct payment									
Approved withdrawals									
Pending submission									
Subtotal (C)									
Section D: Payment method – Justification of advances/Replenishment									
Approved withdrawals									
Pending submission									
Subtotal (D)									
TOTAL									
(A+B+C)									

Preparation tips

- The designated account currency equivalent is determined using the historical exchange rate for transfers to the operating account.
- The subtotal for approved withdrawals should be reconciled with the statement of receipts and payments (cash basis disclosure) and the sources and uses of funds statement.

⁵¹ Applicable to projects under IFAD's General Conditions. For grants under the General Provisions for Grant Financing, see IFAD Grant Forms.

⁵² Categories as outlined in schedule 2 of the financing agreement.

⁵³ The exchange rate value date is to be specified.

⁵⁴ The designated account currency is to be specified.

Appendix 2: Sources and uses of funds statements

		Current period	Previous period	Cumulative
<i>Presentation currency</i>		<i>Local currency</i>	<i>Local currency</i>	<i>Local currency</i>
Sources of funds				
IFAD	• Loans: replenishments			
	• Loans: direct payments			
	• Grants			
Cofinanciers	• Financier A loan			
	• Financier A grant			
	• Financier B loan			
	• Financier B grant			
Borrower/recipient	• Borrower contributions cash			
	• Borrower contributions in kind			
Total sources of funds				
By category, IFAD	• Category 1			
	• Category 2			
By category, cofinanciers	• Category 1			
	• Category 2			
By category, borrower/recipient	• Category 1			
	• Category 2			
By category, other	• Category 1			
	• Category 2			
By component				
By component, IFAD	• Component 1			
	• Component 2			
By component, cofinanciers	• Component 1			
	• Component 2			
By component, borrower/recipient	• Component 1			
	• Component 2			
By component, other	• Component 1			
	• Component 2			
Total uses of funds				
Surplus/deficit				

Preparation tips

- Present the cumulative period covering the full project period.
- Present the uses of funds in terms of categories and components (as specified in the financing agreement).
- Present loans and grants separately.
- Present sources separately for each financier.

Appendix 3(a): Designated account statement⁵⁵

			US\$ (or as otherwise denominated)	Local currency equivalent (optional)
Opening balance			A	A
Add:				
1 IFAD replenishments:				
Date	WA No.	XXX		
Date	WA No.	XXX		
B			B	B
2 Bank interest			C	C
Deduct:				
1 Transfers to operating accounts:				
Date		XXX		
Date		XXX		
E			E	E
2 Bank charges			F	F
3 Exchange rate differences				G
Closing balance			A+B+C-E-F	A+B+C-E-F-G

⁵⁵ Applicable to projects under IFAD's General Conditions.

Appendix 3(b): Designated account reconciliation statement⁵⁶

For the year ended 20XX

IFAD financing agreement number: _____

Bank account number: _____

	Denomination currency	Local currency (if applicable)
Section 1		
1 Total advanced by IFAD	A	
2 <u>Less</u> total amount recovered by IFAD	-B	
3 = Outstanding amount advanced by IFAD	C	
Section 2		
4 Balance of designated account according to the bank statement		
5 <u>Plus</u> balance of operating accounts	D	
<u>Plus</u> cash on hand	E	
= Total bank balances as at xxxx	= D+E	
6 <u>Plus</u> amount claimed in this application	+F	
WA xx		
WA xx		
7 <u>Plus</u> amounts withdrawn and not yet claimed		
WA xx		
WA xx		
Reasons for not yet claimed.	G	
8 <u>Plus</u> amounts claimed in previous applications and not yet credited at the bank statement date or claimed after the bank statement date		
<i>Application number</i> <i>Date</i> <i>US\$</i> <i>Amount</i>		
	H	
9 <u>Less</u> : interest earned	I	
10 = Total advance accounted for (D+E+F+G+H-I)	=J	
11 Explanation of difference between outstanding advance (line 3) and advance accounted for (line 10)	C - J	
<i>Insert explanations</i>		

Date: _____ Signature: _____

Name in Full: _____

Title in Full: _____

⁵⁶ Applicable to projects under IFAD's General Conditions.

Appendix 4: Statement of Expenditure⁵⁷

Name of recipient: _____ Grant number: _____

Project: _____

Reporting period from _____ to _____ in _____ (currency)

Description	Current semester			Year to date			Cumulative		
	Actual	Planned	Variance %	Actual	Planned	Variance %	Actual	Planned	Variance %
	1	2	3=1/2	4	5	6=4	7	8	9=7/8

Sources of funds

IFAD grant – EU fund									
IFAD grant – Other									
Counterpart fund									
Other donor									
Total sources of funds									

Uses of funds

1 By component									
1.1 List subcomponents									
2 By expenditure category									
2.1 List categories									
Subtotal									
Non-IFAD or EU									
Total uses of funds									

We hereby certify that the receipts from IFAD have been expended for eligible expenditures for the proper execution of the project, in accordance with the terms and conditions of the agreement dated _____.

Name and title: _____

Dated: _____

SOE preparation tips

- Include expenditures incurred by subgrantees (if applicable).
- Use the currency specified in the grant agreement (euros are used if it is an EU grant).
- Signed by an authorized signatory.
- Current semester covers eligible expenditures (actual) and the semi-annual budget (planned) for the semester.
- Year-to-date covers eligible expenditures (actual) and the annual budget (planned) during the year.
- Cumulative-to-date covers eligible expenditures (actual) and total allocated budget (planned) from the beginning until the current semester.
- Include legal commitments.
- Disclose income generated from advance withdrawals.
- Specify whether expenditure was in cash or in kind.

⁵⁷ Applicable to projects under IFAD's General Conditions.

Appendix 5: Audit terms of reference

Terms of reference for the financial audit and factual findings of

[Title of the project]

1. Background

- The International Fund for Agricultural Development (IFAD) is aiding the borrower/recipient in the form of loan(s) [and/or grant(s)].
- A financing [and/or grant] agreement(s) has/have been signed between IFAD and the [borrower/recipient]; see appendix 1.
- [Insert for private auditor]: IFAD requires the borrower/recipient to appoint an independent auditor to audit the accounts related to the project, in accordance with the IFAD Handbook on Financial Reporting and Auditing.
- The reporting entity is [xxx].
- The entity prepares its financial statements in accordance with [applicable accounting standards].
- The auditor conducts its audit in terms of [applicable auditing standards].
- [Insert any other information that may be relevant to the auditor]

2. Objective

The objective of this audit is to enable the auditor to express an opinion on whether the financial statements (including additional disclosures as outlined in section 5) fairly present, in all material respects, the financial position of the reporting entity as at [insert year-end date], and/or the results of its operations and cash flows for the years then ended, in conformity with the [applicable accounting standards].

3. Responsibilities of the [borrower/recipient]

I. General

- Provide financial statements for the activities financed by the loan/[grant] that are reconcilable with its records and accounts.
- Provide the auditor with access to all legal documents and correspondence with consultants, contractors and other persons or firms engaged by the project and any other information associated with the project that the auditor deems necessary.
- Ensure that accounting policies are consistently applied and disclosed.
- Ensure that appropriate internal controls are implemented to prevent misstatements and susceptibility to fraud.
- Ensure compliance with all relevant laws and regulations that pertain to the entity, as well as with the financing agreement between the [borrower/recipient] and IFAD.
- Provide the financial statements to the auditor within a reasonable time and be available for any queries that the auditor may have.

II. Financial Statements

The [borrower/recipient] shall:

- Prepare financial statements covering the reporting period [date] to [date], in accordance with acceptable accounting standards that will be identified in the Notes to the Financial Statements.

In addition, the following specific disclosures will be included in the financial statements:

- Withdrawal application statement – appendix 1 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects.
- Sources and uses of funds statement – appendix 2 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects.
- Designated account statement and reconciliation – appendix 3(a) and 3(b) to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects.
- [Statements of expenditures – appendix 4 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects] – applicable to grants.
- Expenditure transaction list – online, provided in [IFAD Grant Forms](#) repository; see document C.2 “Transaction List” – applicable to grants.
- Where the amount transferred to the Implementing Partners (IPs) is substantial, the IPs should transmit a copy of the audited financial statement to the PMU/PCU.

4. Responsibilities of the auditor

I. Auditing standards

- The auditor is responsible for issuing an opinion on the financial statements in accordance with [ISA/ISSAI/national auditing standards].

II. General Principles

By agreeing to these terms, the auditor confirms that:

- The firm is independent of the project, its staff and its activities, consistent with international best practices.
- The firm is not currently providing consulting services to the project or preparing its project financial statements (nor has it done so in the previous two years).
- The auditor is suitably qualified and a member of a professional body affiliated with the International Federation of Accountants.
- [The office of [public auditors] is a member of the International Organization of Supreme Audit Institutions (INTOSAI)].
- The auditor is able to conduct the audit in accordance with auditing standards acceptable to IFAD, pursuant to paragraph 4 (I).
- The firm can assign an audit team with the necessary competence and skills to the audit.
- The firm has a proven track record in conducting audits of a similar nature and complexity.

III. Reporting

The auditor is required to deliver an audit package in compliance with ISA 700 and include:

- The audited financial statements, including additional disclosures as outlined in paragraph 3 (II).
- A report on factual findings, within the scope of agreed-upon procedures, as outlined in paragraph 6. Any ineligible expenditure identified should be clearly mentioned.
- A Management Letter, including the information outlined in paragraph 4 (IV).

IV. Management Letter

The Management Letter is an integral part of the audit package that documents accounting and internal control issues identified by the auditors. The format of the management letter should classify the findings by risk priority. The management letter should:

- Provide comments and observations on the accounting records, systems and internal controls examined during the course of the audit, identify specific deficiencies and areas of weakness in systems and controls and make recommendations for their improvement;
- Include project management's responses to the identified control issues and its proposal to address the issues identified within a specific time.
- Where applicable, follow up on the issues identified in the previous year's management letter.
- Provide comments on economy, efficiency, and effectiveness in project management's use of resources.
- Report on the degree of compliance with each financial covenant in the financing agreement and provide comments, if any, on internal and external matters affecting such compliance.
- Communicate matters that have come to the auditor's attention during the audit that might have a significant impact on the implementation of the project.
- Review results and findings on IFR reliability for the reporting period.
- Any other matters that the auditors deem pertinent.
- List additional procedures, if applicable.

The audit report should provide sufficient detail as to the nature and extent of the procedures performed by the auditor. The auditor is required to provide the audit package by no later than [insert date]. Reports are to be delivered in the official language of the financing agreement.

5. Scope of the financial audit

In performing the audit, the auditor shall, at a minimum:

- Confirm whether the financial statements have been prepared following international (IPSAS, GAAP, IFRS), regional or national accounting standards; in the latter case, identify elements of difference with the international standards.
- Confirm the auditing standards used for the audit.
- Obtain audit evidence that the financial statements are fairly presented and free of material misstatements, in accordance with the applicable accounting framework.
- Assess internal controls related to the financial reporting process, and identify any weakness that might result in misstatements, whether due to fraud or error.
- Verify the reliability of the SOEs or IFRs, as the case may be, used to support withdrawal applications and ensure that they are reliable and accurately reflect expenditures incurred and activities carried out during the reporting period.
- Verify whether expenditure incurred in the name of the project is consistent with the terms of the financing agreement(s) (appendix xx) and incurred for the purposes intended in this agreement. Both IFAD and third-party funding should be considered.
- Verify whether counterpart funds provided by the Government of [Country] have been provided and used in accordance with the relevant financing agreement; verify that the amount of in-kind contribution is reported according to the agreed accounting principles and that the reported fair-market value for all in-kind contribution items is reasonable and fully and accurately disclosed in the financial statements.
- Verify that the inventory and fixed assets held by the entity exist, are complete, are properly accounted and are used for project purposes; at project closure, confirm that the project assets are transferred to the borrower/recipient or the entity identified in the financing agreement.
- Verify the project's recurrent costs (salaries and operating costs) claimed under WAs and ensure they are reasonable, congruent with the implementation needs of the project and within the acceptable threshold (FA schedule II and its revisions).
- The audit should cover selected project regional/provincial implementing units as per the audit plan agreed with the PMU/PCU.

- [List others]

6. Scope of the agreed-upon procedures

The auditor is required to perform the following specific procedures and report on factual findings, as required in paragraph 4.3.

I. Withdrawal application statement

The auditor is requested to obtain the individual withdrawal applications (WAs) submitted to IFAD, as summarized in the withdrawal application statement, and develop test procedures to:

- Confirm that the withdrawal application statement is reconciled with the amounts disbursed by the Fund and deposited to the designated account (DA).
- Confirm that the withdrawal application statement is reconciled with the IFRs submitted to the Fund.
- Ascertain whether the designated account currency equivalent was determined using the historical exchange rate of transfers to the operating account or the accounting rules used.
- [List additional procedures, if applicable]⁵⁸

II. Designated account statement

The auditor is requested to review the activities of the designated account(s) associated with the project, including the initial advance, replenishments, interest that may accrue on the outstanding and year-end balances. The auditor is requested to develop test procedures to:

- Check the accuracy of the DA reconciliation(s).
- Confirm that the DA(s) has/have been maintained in accordance with the provisions of the financing agreement and that transactions from the DA(s) are accurately and correctly recorded in the financial accounts and statements of the project.
- Check that expenditures as reported in the project's financial statements are reconciled with the amounts withdrawn from the DA and that the amounts deposited to the DA are reconciled with the amounts disbursed by the Fund.
- Reconciliation should also be made with the amounts paid from the prefinancing account and direct payments (if any).
- [List additional procedures, if applicable]

III. Interim Financial Reports (IFRs) and Certified Statements of Expenditure (SOEs)

The auditor is requested to obtain the certified SOEs or IFRs as submitted to IFAD and apply such tests and control as the auditor deems necessary under the circumstances, to:

- Ascertain that the financial management system is reliable to produce the IFRs and has met Fund requirement during the year.
- Determine whether the expenditures incurred are related to activities outlined in the AWPB and consistent with the grant agreement.
- Determine whether the funds have been utilized for the intended purposes, with due regard to economy, efficiency and social equity.
- Determine whether the SOE threshold was set for the financing instrument and the IFRs prepared accordingly.
- Determine whether the expenditures claimed through IFRs or SOEs were properly and appropriately authorized, classified⁵⁹ and supported by adequate documentation.
- Identify any ineligible expenditures, including the nature of the ineligible expenditures, the date incurred, and the IFR period.
- [List additional procedures, if applicable]

⁵⁸ Procedures may include inquiry/analysis/recalculation/comparison/observation/inspection.

⁵⁹ The threshold for SOE transactions will be stipulated in the FMFCL.

IV. Agreed-upon procedures for donor-funded projects

- In the case of projects financed by the Green Climate Fund (GCF), the auditors will assess the compliance of the project accounting records and the GCF Annual Progress Report (APR) with the applicable GCF requirements (e.g. expenditure eligibility, categorization vis-à-vis the GCF budget categories; etc.).
- Include specific requirements for other donors, as needed.
- [List additional procedures, if applicable]

V. Other

- [List additional procedures, if applicable]

7. Public disclosure

IFAD promotes public disclosure of project financial information to enhance the level of transparency and accountability. IFAD will disclose project audit reports, as appropriate, in line with the Fund's disclosure policy. Management letters issued by auditors are not subject to public disclosure by IFAD. In agreeing to the terms of reference, the auditor explicitly acknowledges IFAD's right to publicly disclose audit reports (audited financial statements and audit opinion) and will issue reports without a limitation-of-use clause.

To facilitate the public disclosure process, the auditor is requested to submit two separate files as follows:

- Audited financial statements, audit opinion and report on factual findings (the latter where applicable).
- Management Letter.

8. Appendices

[list as applicable]

Appendix: Financing/grant agreement(s) Appendix: Letter to the Borrower

Appendix: IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects

Signed by: _____

Date: ____

Appendix 6. Auditor terms of reference for Grants

EU-related highlighted

1. Background

Provide general information about the Recipient

Example: [insert name of the entity] (the Recipient), is an independent, non-profit organization focusing on sustainable economic development in developing countries. The Recipient, in partnership with governments, civil society and the private sector, devises scalable economic development solutions that have a real impact on poverty reduction, food security and ecosystem health. Headquartered in [insert name of the city], [insert name of the country], with regional offices across the globe.

The Recipient entered into grant agreement no. [Insert the number of the grant agreement] with the International Fund for Agricultural Development (IFAD) to receive financial support in the amount of [insert the currency and the amount of total budget allocation] to implement the [insert name of the Project as per the first page of the Grant Agreement] Project. The grant is funded under the European Union (EU), represented by the European Commission's contribution agreement no. [Insert the number of the EU contribution agreement as per the first page of the grant agreement] where under IFAD receives a contribution to finance the Project, which forms part of the overall Programme described in annex 1 of the contribution agreement.

The Recipient hereby requests a (1) financial audit of the Statement of Expenditures (SOE) and (2) agreed procedures of project engagement for the reporting period of [insert starting date of the reporting period] to [insert end date of the reporting period]. The Recipient reported total expenditures of [insert the currency and the amount] during the reporting period.

In performing the engagements, the auditors should familiarize themselves with:

- IFAD Handbook on Financial Reporting and Auditing
- Financial and Administrative Framework Agreement ("FAFA") entered into between the European Community and the United Nations on 29 April 2003 and to which IFAD acceded on 27 September 2004, as last amended on 1 January 2019.
- Schedule 4 of the grant agreement – project-eligible expenditures
- List of required supporting documents, as listed at www.ifad.org/grantforms

2. Objectives and Standards

2.1. Objective:

The objective of the audit is to enable the auditor to express an audit opinion(s) on whether the SOE (including additional disclosures) fairly presents the financial position of the project in all material respects and whether the funds received and expenditures incurred for the relevant accounting period are in conformity with the [insert the Recipient's applicable accounting standards]. The auditor shall conduct this audit in accordance with the International Auditing Standards.

2.2. Agreed-upon procedures engagement:

The auditor shall undertake this engagement in accordance with the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information, as promulgated by the International Federation of Accountants (IFAC). The auditor is expected:

- To carry out the agreed-upon procedures listed in the section 3 of this TOR – Scope and approach of the audit and agreed-upon procedures engagement

- To issue a report on factual findings that will support IFAD's conclusions on the eligibility of the reported expenditure

The auditor shall comply with the IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC's International Ethics Standards Board for Accountants (IESBA), which establishes fundamental ethical principles for auditors on integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.

3. Scope of the audit and list of agreed-upon procedures

3.1. List of agreed-upon procedures covered by this TOR

The auditor must perform the following checks in relation to the eligibility criteria applicable to the grant agreement. The auditor must therefore gain a good understanding of such requirements to perform the relevant checks only and properly apply the relevant eligibility requirements.

- The Statement of Expenditures (SOEs) for the reporting period, as submitted to IFAD, comprises the project information (name of the recipient, grant number, currency of the grant agreement, project name and reporting period), as well as whether the presentation of the expenditures is by expenditure category and/or project component, as set out in schedule 2 of the grant agreement.
- The total of the expenditure transaction lists for the reporting period agrees with the total cumulative expenditures for the same period, as described in the SOEs submitted to IFAD.
- The reported expenditures meet the project eligibility criteria as described in schedule 4 of the grant agreement and other eligibility requirements, including but not limited to the correct exchange rates used, where applicable; duties, taxes and charges included in the financial report cannot be recovered by the Recipient, and expenditure specifically considered ineligible by schedule 4 of the grant agreement is not included in the SOEs.
- The expenditure is recorded in the accounting system of the Recipient or Subrecipients (third parties with subsidiary agreements such as implementing partners, subrecipients, service providers, etc.) in accordance with the applicable accounting standards and the Recipient's usual cost accounting practices.
- The expenditure is backed up by sufficient and effective supporting documentation listed at www.ifad.org/grantforms, which shall be constantly available and stored in accordance with paragraph 3.11, schedule 3 of the Grant Agreement.
- A representative sample of transactions is selected from the recipient's list of expenditures to confirm eligibility for financing. The size of the sample will be based on the auditor's professional judgement and underlying risks.

If additional checks are needed, describe the additional checks not included in the above standard list of agreed-upon procedures.

4. Requirements for the Auditor

4.1. General Principles

By agreeing to these TORs, the auditor confirms meeting at least one of the following conditions:

- The auditor is a member of a national accounting or auditing body or institution, which in turn is a member of the International Federation of Accountants (IFAC).
- The auditor is a member of a national accounting or auditing body or institution. Although this organization is not a member of the IFAC, the auditor commits to undertaking the engagement in accordance with the IFAC standards and ethics set out in these TORs.
- The auditor is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and the Council (this applies to auditors and audit firms based in an EU member state).
- The auditor is registered as a statutory auditor in the public register of a public oversight body in a third country, and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).

4.2. Qualifications, Experience, and Team Composition

4.2.1. Qualification and Experience

The auditor will employ staff with appropriate professional qualifications and suitable experience with IFAC standards and verification of the financial information of entities of comparable size and complexity as the Recipient. In addition, the audit team as a whole should have:

- Experience with audits in [specify geographic zone, country]
- Experience with audits of [specify sector or instrument]
- Sufficient knowledge of relevant laws, regulations and rules in the country concerned. This includes but is not limited to taxation, social security and labour regulations, accounting and reporting.
- Fluency in [language(s)]
- A good knowledge of [required knowledge]

4.2.2. Team composition

The team of auditors required for this engagement will be composed of a category 1 auditor who has the ultimate responsibility for expenditure verification and a team composed of an appropriate mix of category 2–4 auditors.

4.2.3. Categories of staff/experts

Category 1 – (Audit Partner)

A category 1 expert (audit partner) should be a partner or another person in a position similar to that of a partner and be a highly qualified expert with relevant professional qualifications who assumes or has assumed senior and managerial responsibilities in public audit practice. He/she should be a member of a national or international accounting or auditing body or institution. He/she must have at least 12 years of professional experience as a professional auditor or accountant in public audit practice. The audit partner will be the person responsible for the specific contract and its execution and for the report issued on behalf of the firm. He/she has the proper authority from a professional, legal or regulatory body and is authorized to certify accounts under the laws of the country in which the audit firm is registered.

Category 2 – (e.g. Audit Manager)

Audit managers should be qualified experts with a relevant university degree or professional qualification. They should have at least six years of experience as a professional auditor or accountant in public audit practice, including relevant managerial experience leading audit teams. He/she should be a member of a national or international accounting or auditing body or institution.

Category 3 – (e.g. Senior Auditor)

Senior auditors should be qualified experts with a relevant university degree or professional qualification and at least three years of professional experience as a professional auditor or accountant in public audit practice.

Category 4 – (e.g. Assistant Auditor)

Assistant auditors should have a relevant university degree and at least six months of professional experience in public audit practice.

4.2.4. Curriculum Vitae (CVs)

The auditor will provide the Recipient with the CVs of the staff/experts involved in the engagement. The CVs will include appropriate details for the purpose of evaluating the offer in terms of the specific relevant experience for this engagement and the qualifying work performed in the past.

5. Reporting

The auditor is required to deliver an audit package that includes:

- a) The certified SOEs, including the expenditure transaction lists where the grant is funded under the EU and additional disclosures;
- b) An audit opinion on the SOEs, within the scope outlined in section 3 of this TOR;
- c) A report on factual findings, within the scope of agreed-upon procedures as outlined in section 3 of this TOR. The report on factual findings shall include at a minimum:
 - Background information on the project subject to engagement
 - Overview of the transaction population and sample
 - Brief descriptions of the testing process
 - Summary of findings
 - Details of findings, including the auditor's recommendations. **Any ineligible expenditure identified should be clearly mentioned.**
 - Include project management's responses to the issues identified and its proposal to address those issues within a specific time period.
 - Where applicable, follow up on the issues identified in the previous year's report on factual findings.
 - List names of the audit team.

The audit report should provide sufficient detail on the nature and extent of the procedures performed by the auditor. The auditor is required to provide the audit package by no later than [\[insert the expected delivery date\]](#). Reports are to be delivered in English.

6. Public disclosure

IFAD promotes public disclosure of project financial information to enhance the level of transparency and accountability. IFAD will disclose project audit reports, as appropriate, in line with the Fund's disclosure policy. Management letters issued by auditors are not subject to public disclosure by IFAD. In agreeing to the terms of reference, the auditor explicitly acknowledges IFAD's right to publicly disclose audit reports (audited financial statements and audit opinion) and will issue reports without a limitation-of-use clause.

To facilitate the public disclosure process, the auditor is requested to submit two separate files, as follows:

- Audited financial statements and audit opinion on the SOEs; and
- Report on factual findings

7. Appendices

- Appendix 1: Grant agreement, including schedules 1, 2, 3 and 4
- Appendix 2: IFAD Handbook on Financial Reporting and Auditing
- Appendix 3: List of required supporting documents, as listed at www.ifad.org/grantforms
- Appendix 4: Financial and Administrative Framework Agreement (FAFA) at www.undp.org/european-union/framework-cooperation

Appendix 7: Sample Interim Financial Report

I. AWPB and Cash Forecast for the next two quarters

Country:

Name on the Project:

IFAD Instrument number: *(List all instruments)*

Expressed in designated account denomination currency:

For the period	Starting Date	End Date
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Disbursement Category	IFAD Instrument n. <i>(add more columns for other instruments)</i>						
	Ref.	Annual Allocations as per AWPB	Annual Cumulative Expenditures as at end of reporting period	Annual Balance	Next Reporting Quarter	Following Reporting Quarter	Total for two subsequent quarters
		A	B	C = A-B	D	E	F = D+E
Forecast by Category:							
1 Category 1							
2 Category 2							
3 Category 3							
4 Category 4							
5 Category 5							
Total	I						
Forecast by Component:							
1 Component 1							
2 Component 2							
3 Component 3							
Total (must be equal to I)	II						

Total cash forecast expenditure	III						
Less: Planned direct payments/reimbursements	IV						
Net projected expenditure from DA	V=III-IV						
Less cash balances available at the end of the reporting quarter (DA+Project Banks +petty cash)	VI						
Advance Recovery, if any	VII						
Forecast: DA Additional Advance (After reducing recovery, if any)	VIII						

Note 1: (VII) may be higher than (V) when there is need to have an extra amount in the DA to cover potential delays in future disbursements

Note 2: The AWPB data covers Project Financial Year. Please note that Cash forecasts are rolling for next 2 quarters, which may not be within the same Financial Year for the 1st and 4th quarter.

Note 3: In Role VII, if a part of the advance is to be recovered in the period prior to Project Completion, reduce the recovery amount proposed.

Date		Approver Name		Approver Signature
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II. Summary of Sources and Uses of Funds - DA Account

Country:

Name on the Project:

IFAD Instrument number: *(List all instruments)*

Expressed in Designated Account Denomination Currency:

For the period		Starting Date	End Date		
Description	Ref.	IFAD Instrument n. <i>(add more columns for other instruments)</i>			
		Quarter	Year to Date	Inception to Date	
		A	B	C	
Sources of funds:					
DA Opening Balances					
Operating account opening balance					
Petty Cash opening balance					
Total Opening Balances					
Funds received in the period under review					
Total Cash Available in the period under review					
Direct payments made in the period under review					
Total cash available and direct payments in the period under review.		I			
Uses of Funds by Category:			Actual for Quarter	Actual for FY	Actual since inception
	Category 1				
	Category 2				
	Category 3				
	Category 4				
	Category 5				
	Category not yet identified/advance				
Total Funds Used by Category		II			
Uses of Funds by Component					
	Component 1				
	Component 2				
	Component 3				
Total Funds Used by Component		III			
Closing Cash Balances		IV=I – II			
Represented by:					
	DA Closing Balance				
	Operating account Closing Balance				
	Petty cash Closing Balance				
Total Closing Balance (must be equal to IV)		V			

Note 1: This Form to include IFAD Financing & Other Financing that is administered by IFAD

Note 2: If figures are stated in the functional / reporting currency that is different from DA currency, please show equivalent figures in DA currency in additional columns, using forex rates applied on FIFO basis as disclosed.

Date		Approver Name		Approver Signature
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III. Designated Account Activity Statement

Country:

Name on the Project:

IFAD Instrument number: *(List all instruments)*

Expressed in Designated Account Denomination Currency:

For the period	Starting Date	End Date
	IFAD Instrument n. <i>(add more columns for other instruments)</i>	Notes
PART I (Cumulative Advances and Expenditure)		
1. Cumulative Advances by IFAD to the end of current Reporting period / quarter		Provide as per IFAD Records
2. Cumulative Expenditure justified by IFAD since project start till the beginning of Reporting Quarter		Provide as per IFAD Records
3. Outstanding Advances to be accounted for (Line 1 minus Line 2)		Line 3 = Line 8 = Line 13
PART II (Designated Account - DA - Activity Beginning Balance Reconciliation)		
4. DA balance at beginning of Reporting Quarter		Match to Report II (Ref. I)
5. Advances by IFAD during the Reporting Quarter		To support this figure, please attach a List of WAs processed by IFAD.
6. Add/Subtract cumulative adjustments, if any		If not zero, please provide details below
7. Sub total of Advances and Outstanding Was (Line 5 plus line 6)		
8. Outstanding Advances to be accounted for (Line 4 plus Line 5c)		Line 3 = Line 8 = Line 13
PART III (Designated Account – DA – Activity Closing Balance Reconciliation)		
9. DA balance at end of Reporting Quarter		
10. Expenditure incurred during the Reporting Quarter		
11. Add/subtract cumulative adjustments, if any		If not zero, please provide details below
12. Total expenditure reported (net of adjustments) Expenditure (Line 10 plus 11)		
13. Total Advance accounted for: (Line 9 and Line 12)		Line 3 = Line 9 = Line 13
14. Difference if any (Line 8 minus Line 13)		Provide explanations if not zero
PART IV (Disbursements & Summary of Withdrawal Applications)		
15. Net Forecast Expenditure to be paid from DA for subsequent two Quarters		
16. DA Closing Balance at the end of the current reporting quarter		As per line 9 above
17. Cash requirements for subsequent two quarters to be paid from DA		Line 15 minus Line 16 (Cash forecast minus Cash Available)
18. Amounts to be justified against the expenditure incurred during current quarter		This amount is to be mentioned in respective cell of WA Form “Amount to be justified”
19. Advance Recovery, if any		If not zero, please provide details below
20. Advance – Cash Requirement for the next reporting quarter		This amount is to be mentioned in the respective cell of the WA Form “Amount to be advanced”
21. Additional advance requirement for Subsequent two reporting quarters, if required		Line 17 minus line 20. This is an indicative figure only
NOTES		
Explanation for item 6 (if not zero):	IFR, WA Ref	
Explanation for item 11 (if not zero):	IFR, WA Ref	
Explanation for item 19 (if not zero):	IFR, WA Ref	

Note 1: If the Reports I and II are in functional currency other than the DA currency, equivalent amounts in DA currency in this report and Report I should be prepared using forex rates on a FIFO basis

IV. Variance Analysis of Use of Funds by Quarter

Country:

Name on the Project:

IFAD Instrument number: *(List all instruments)*

Expressed in designated account denomination currency:

For the period		Starting Date		End Date	
		IFAD Instrument <i>(add more columns for other instruments)</i>			
		Planned (AWPB – Cash Forecast)	Actual Expenditure from DA for the quarter	Direct Payments / Reimbursements for the quarter	Variance ⁶⁰
		A	B ⁶¹	C	D = A-B - C E = D/A (%)
Expenditure by Categories:					
	Category 1				
	Category 2				
	Category 3				
	Category 4				
TOTAL	I				
Expenditure by Components:					
	Component 1				
	Component 2				
	Component 3				
	Component 4				
TOTAL	II				

⁶⁰ Provide reasons if the quarterly variances are equal to or greater than 10 per cent.⁶¹ Figures in column B (Actual) should match the corresponding figures in Reports II and III.

V. Variance Analysis of Use of Funds – FY

Country:

Name on the Project:

IFAD Instrument number: *(List all instruments)*

Expressed in designated account denomination currency:

For the period		Starting Date		End Date				
IFAD Instrument <i>(add more columns for other instruments)</i>								
		Planned (AWPB – Annual Forecast)	Actual Expenditure from DA (Actual Cumulative year to date)	Direct Payment / Reimbursements (Actual Cumulative year to date)	Balance (AWPB Available Balance)	Forecast (for next two quarters)	Variance ⁶² (b/w AWPB Balance and Cash forecast)	Progress (Against AWPB)
		A ⁶³	B ⁶⁴	C	D = A-B-C	E	F = D-E	G=(B+C)/A (%)
Expenditure by Categories:								
	Category 1							
	Category 2							
	Category 3							
	Category 4							
	Category 5							
TOTAL	I							
Expenditure by Components:								
	Component 1							
	Component 2							
	Component 3							
	Component 4							
TOTAL	II							

⁶² Provide reasons if the variances are equal to or greater than 10 per cent.⁶³ Planned figures in column A should be adjusted for phasing up to the reported quarter.⁶⁴ Figures in column B (Actuals) should match corresponding figures in Report II and III.

VI. Variance Analysis of Use of Funds – Cumulative

Country:

Name on the Project:

IFAD Instrument number: *(List all instruments)*

Expressed in designated account denomination currency:

For the period	Starting Date	End Date
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		Planned (As per project design / revisions – Schedule II of the FA)	Actual Expenditure from DA (Actual Cumulative to date)	Direct Payment / Reimbursements (Actual Cumulative to date)	Balance	Progress
		A	B	C	D = A-B-C	E = D/A (%)
Expenditure by Categories:						
	Category 1					
	Category 2					
	Category 3					
	Category 4					
	Category 5					
TOTAL	I					
Expenditure by Components:						
	Component 1					
	Component 2					
	Component 3					
	Component 4					
TOTAL	II					

VII. Other financiers Cash Forecast - Optional

NAME OF THE PROJECT
IFAD LOAN/GRANT NUMBER
Cash Forecast for Next 2 Reporting Periods Ending on _____

Interim Financial Report No. _____

Annex: I.B

Disbursement Category	REF	Government			Beneficiaries		
		Next Reporting Quarter	Following Reporting Quarter	Total for 2 Reporting Quarters	Next Reporting Quarter	Following Reporting Quarter	Total for 2 Reporting Quarters
		A	B	C	D	E	F
		Currency			Currency		
Forecast by Category:							
1	Category 1						
2	Category 2						
3	Category 3						
4	Category 4						
5	Category 5						
Total	I						
Forecast by Component:							
1	Component 1						
2	Component 2						
3	Component 3						
4	Component 4						
5	Component 5						
Total	II						
Total Expected Payments	III						
Less Forecast: In kind contributions	IV						
Forecast: Cash to be received	III - IV						

May 2023
